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ORIGIN SCI-06

INFO OCT-01 EUR-25 ADP-00 L-03 ABF-01 AID-20 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00

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TO AMEMBASSY BELGRADE

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E. O. 11652: N/ A

TAGS: OSCI, TPHY, YO

SUBJ: US- YUGOSLAV SCIENTIFIC COOPERATION

REF: BELGRADE 537,999 AND 1340, STATE 55501

1. ONLY FOR YOUR INFORMATION AND COMMENT; THERE IS DESCRIBED BELOW OUR PLANNED GENERAL APPROACH TO NEGOTIATIONS ON FUTURE FUNDING OF US- YUGOSLAV S AND T PROGRAM.

2. U. S. APPROACH TO DISCUSSIONS ASSUMES THAT: YUGOSLAVS WILL NOT MATCH A LARGE AMOUNT FOR A JOINT FUND; WILL TALK IN THE CONTEXT OF \$7.2 MILLION IN US- OWNED DINARS;
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MIGHT PROPOSE ANNUAL CONTRIBUTIONS; MAY OR MAY NOT ACCEPT THE IDEA OF AN INTEREST-BEARING FUND; AND WILL WANT PRIOR YUGOSLAV CONCURRENCE IN RELEASE OF THE \$7.2 MILLION IN UNOBLIGATED DINARS.

3. IN SPITE OF FACT CONVEYED BELGRADE 537 THAT YUGOSLAVS HAVE INDICATED THAT THEY WILL NOT BE IN POSITION TO CONTRIBUTE TO LARGE JOINT FUND ON WHICH THEY WOULD PAY INTEREST FOR FUNDING ONGOING AND SOME FUTURE COOPERATIVE RESEARCH, DEPARTMENT CONSIDERS IT DESIRABLE TO PUT FORTH AT OUTSET OF NEGOTIATIONS PLAN FOR ESTABLISHING AN INTEREST BEARING FUND FOR PURPOSES OF: (A) EXTRACTING CONSTRAINTS IF BDG REFUSES TO CONSIDER THE PROBLEM.

C) ON RESCHEDULING, CARGILL RESPONDED TO QUESTION FROM COMMITTEE THAT NO FORMULA COULD BE ADVANCED UNTIL DEBT DIVISION HAD TAKEN PLACE. EACH SITUATION PECULIAR AND REQUIRES ITS OWN ANALYSIS AND SOLUTION. (BUT IN LATER TALKS WITH BDG IT WAS MADE

CLEAR PARALLEL PREPARATIONS FOR DEBT DIVISION AND RESCHEDULING COULD GO FORWARD SIMULTANEOUSLY IF AGREEMENT IN PRINCIPLE REACHED, SO AS TO AVOID "CHICKEN OR EGG" HIATUS).

D) COMMITTEE EXPRESSED SURPRISE RE SHORT DEADLINE (JUNE 30), STATING THAT NO RPT NO RESPONSE COULD BE EXPECTED FROM BDG THIS WEEKEND. TAJUDDIN REQUESTED ANY CREDITOR REFERENCE TO DEBT QUESTION IN FORMAL MEETINGS BE SOFT AND PASSIVE IN NATURE. COMMITTEE ACCEPTED CARGILL PROPOSAL FOR INFORMAL MEETING WITH CREDITORS (4:30 SATURDAY, REPORTED SEPTTEL).

E) CARGILL, IN COMMENTARY, OPINED THAT BDG CAUGHT UNPREPARED BY URGENCY OF THE DEBT QUESTION, NOT HAVING REALIZED UNTIL PREVIOUS DAY LAST WEEK'S EFFORTS TO NEGOTIATE EXTENSION WITH GOP HAD FAILED. HOWEVER, IT WAS HIS IMPRESSION BDG WILLING TO MAKE SERIOUS APPROACH. HE DETECTED A "LIVELY SENSE OF GRATITUDE" FOR PAST ASSISTANCE AND NEED FOR FUTURE AID.

4. LENGTHY DISCUSSIONS OF TACTICS CONCLUDED WITH CONSENSUS THAT EACH CREDITOR WOULD MAKE SOME REFERENCE TO DEBT PROBLEM IN OPENING STATEMENT AT FORMAL MEETING, RESERVING FULL AND EXPLICIT POSITION ON DEBT FOR THE INFORMAL MEETING.

5. IN OPENING SESSION OF FORMAL MEETING, SATURDAY AM (OVERALL REPORT SEPTTEL) THE FOLLOWING STATEMENTS WERE MADE ON DEBT BY CREDITOR COUNTRIES (IN ORDER OF SPEAKING).

A) CANADA REFERRED TO NEED FOR SOLUTIONS TO PROCESSING PROBLEMS

AND THAT SECTORS OF THE DONOR COMMUNITY ARE INTERESTED IN AN OPTIMAL

FLOW OF AID, BUT A FAVORABLE RELATIONSHIP IS NEEDED. (FYI. CANADIAN DEL SOON AFTER PASSED NOTE TO US DEL STATING MISUNDERSTANDING OF FRI-

DAY EVE AGREEMENT REGARDING SPECIFICITY OF STATEMENT TO BE MADE).

END FYI.

B) GS. CALLED NEXT AND RESPONDED, INTER ALIA, WITH EXPLICIT REFERENCE TO NECESSITY FOR A SATISFACTORY UNDERSTANDING ABOUT THE SER-
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VICING OF PAST CREDITS. U. S. DEL CITED THAT PAUCITY OF BDG ASSETS AT TIME OF INDEPENDENCE HAD BEEN RECOGNIZED BY DONORS (PARTICULARLY US)

IN EXTRAORDINARY LEVELS OF GRANT ASSISTANCE. OFFER OF RESCHEDULING RESPONSIVE TO FINANCIAL CAPACITY INCLUDED. (FULL TEXT SEPTTEL)

C) SWEDEN - ENCOURAGED SATISFACTORY SOLUTION OF DEBT PROBLEM BY ACCEPTANCE OF LIABILITY FOR SOME PAST DEBTS CONCURRENT WITH RESCHEDULING OF THOSE OBLIGATIONS SO AS NOT TO PLACE DETERMENTAL BURDEN ON DEVELOPMENT EFFORT.

D) JAPAN ASSOCIATED ITSELF WITH PRIOR STATEMENTS ON DEBT AND NOTED THE PROBLEM SHOULD BE SOLVED QUICKLY AS ANY RESCHEDULING WOULD REQUIRE A PRIOR UNDERSTANDING AS TO DIVISION OF DEBT.

E) FRANCE TIED THE ABILITY TO ESTABLISH FUTURE AID RELATIONSHIP TO A NORMALIZATION OF THE CREDIT SITUATION, PARTICULARLY A PROPER SETTLEMENT OF THE OLD DEBT.

F) GERMANY, CITING BD PROGRESS IN FINDING SOLUTIONS TO OTHER PROBLEMS, WELCOMED A SOLUTION TTJAYHER OPEN QUESTIONS, E. G., IN INTERNATIONAL FINANCIAL SECTOR, AN AGREEMENT ON DEBT PROBLEM FULLY CONSISTENT WITH ABILITY OF BD ECONOMY.

G) U. K. NOTED THAT DONOR COUNTRIES AS WELL AS BD HAVE PROBLEMS, AND PARTICULARLY SEEK TO REGULARIZE THE EXTERNAL OBLIGATIONS OF FORMER EAST PAKISTAN.

H) THE NETHERLANDS REFERRED TO NEED FOR BDG TO ESTABLISH NEW INTERNATIONAL RELATIONS, TRADE PATTERNS AND FINANCIAL ARRANGEMENTS, AMONG WHICH IS A SOLUTION TO THE PROBLEM OF DEBTS RELATED TO FORMER EAST PAKISTAN.

I) ITALY AND BELGIUM MADE SIMILAR STATEMENTS, GENERALLY REFERRING TO PREVIOUS SPEAKERS. NORWAY DID NOT INTERVENE IN THIS SUBJECT.

J) IBRD (CARGILL) CITED CONCERN THAT SOLUTION TO DEBT QUESTION MUST BE FOUND.

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